THE TAX INSTITUTE
AT H&R BLOCK

# QUICK REFERENCE

## Impact of Key Tax Law Changes for Individuals and Business - Calendar Year 2012
## As of September 7, 2012

| # | What is it? | Who is impacted? | When is it effective? | What does the taxpayer need to do? | Impact to the Taxpayer at tax time |
|---|---|---|---|---|---|
| | **Tax laws expired in 2011** | | | | |
| 1 | **AMT Patch (Form 6251)**<br>• For 2012, exemption amounts are $33,750 (single); $45,000 (MFJ); $22,500 (MFS) | • Individuals with preference items and adjustments that will increase AMT income above exemption amounts | Expired 12/31/2011 | • Determine if affected by AMT<br>• Reduce preference items if possible | • Exemption amounts are lower so mo taxpayers may be subject to AMT |
| 2 | **"Small Extenders"**<br>• State/Local sales tax itemized deduction (Schedule A)<br>• Tuition and Fees Deduction (Form 8917)<br>• $250 qualified educator adjustment (Form 1040)<br>• Qualified charitable distributions from IRAs up to $100,000 (Form 1040)<br>• Mortgage insurance premium deduction (Schedule A) | • Residents of states with no state income tax<br>• Taxpayers with higher-education expenses not claiming an education credit<br>• Taxpayers age 70 ½ or older who wish to roll distributions directly to charities<br>• Taxpayers who paid mortgage insurance | Expired 12/31/2011 | • Determine impact, if any, of tax benefit expiring<br>• Evaluate W-4 withholding and / or quarterly estimates as appropriate | • Lost tax benefits may increase taxpayer's tax liability<br>• Loss of adjustments could increase taxpayer's AGI, possibly eliminating ( reducing other tax benefits |
| 3 | **Nonbusiness Energy Property Credit (Form 5695)**<br>• Nonrefundable credit for 10% of costs of qualifying home improvements for heating/cooling efficiency with a $500 lifetime maximum | • Individuals who invest in otherwise qualifying improvements to their home | Expired 12/31/2011 | • Be aware that the credit is expired | • Beginning in 2012, this credit will not be available to taxpayers |
| 4 | **Section 179 deduction (Form 4562)**<br>• Deduction was increased and expanded for 2011 only<br>• Taxpayers may expense up to $139,000 of qualified property expenditures for 2012<br>• For 2012, the phaseout threshold begins at expenditures over $560,000 | • Businesses that purchase tangible personal property | Expired 12/31/2011 | • Be aware of changes in the deduction in 2012 | • Taxpayers may expense a smaller portion of their capital expenditures when placed in service<br>• Reduced section 179 deduction means higher depreciation deductior in later years |
| 5 | **100% Bonus Depreciation (Form 4562)**<br>• Allowed 100% expensing of qualified property placed in service in 2011<br>• In 2012, 50% bonus depreciation is allowed | • Taxpayers who placed qualified business property in service in 2012 | 2011 only | • Be aware that in 2012 deduction amount drops to 50% | • Lower bonus depreciation means higher depreciation deduction in late years |
| | **Tax laws effective for 2012** | | | | |
| 6 | **American Opportunity Credit (AOC) (Form 8863)**<br>• Credit up to $2,500 for the first four years of college<br>• Partially refundable, up to $1,000 | • College students or their parents if claiming the student as a dependent | Expires 12/31/12 | • Be aware the credit expires 12/31/12; reverts to pre-ARRA Hope Credit | • After 2012, there may be fewer tax benefits available for education<br>• The credit is allowed for AMT |
| 7 | **Adoption credit (Form 8839)**<br>• For 2012, the credit is $12,170 (indexed for inflation)<br>• Nonrefundable after 2011<br>• Subject to tax liability limitations and carryover rules | • Families who complete an adoption in 2012<br>• Families who paid qualified expenses for an incomplete domestic adoption in 2011<br>• Families who paid qualified expenses in 2012 for a previously completed adoption | 2012 | • Be aware of changes<br>• Evaluate W-4 withholding and / or quarterly estimates as appropriate | • The credit will be nonrefundable for taxpayers beginning in 2012<br>• Beginning in 2013 the credit will be $6,000 and available only for specia needs adoptions<br>• Only actual expenses eligible |
| 8 | **2010 rollover to Roth income inclusion (Form 1040)**<br>• Half of the amount rolled into a Roth IRA from a qualified plan in 2010 must be included in income in 2012 | • Individuals who rolled amounts into a Roth IRA from a qualified plan in 2010 and did not elect to report the conversion for 2010 | 2012 | • File Form 8606 with return<br>• Report one-half of the rollover amount as income in 2012 | • The taxpayer will owe tax on the income |
| 9 | ***No* phaseout of itemized deductions and personal exemptions** | • High income taxpayers | 2012 | • Consider bunching itemized deductions into 2012 | • After 2012, itemized deductions and personal exemptions will be phased out based on income threshold |

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| 10 | **Payroll Tax Holiday – <u>not</u> an income tax event**<br>• For 2012, employees and self-employed individuals will pay 2 percentage points less in social security tax<br>• Employees will pay tax of 4.2% (instead of 6.2%) on wages earned up to $106,800 (Form W-2)<br>• Self-employed individuals will pay SE tax at a rate of 13.3% (instead of 15.3%) (Schedule SE & Form 1040-ES) | • All taxpayers who earn income subject to social security tax | 2012 | • Employees do not need to do anything<br>• Self-employed taxpayers may be able to lower estimated taxes based on the reduction | • There is no impact to employees as this does not affect the income tax return<br>• Higher take-home pay for employees<br>• Lower SE tax for self-employed taxpayers |
| | **Tax laws effective in 2013** | | | | |
| 11 | **Tax Rates**<br>• Tax rates revert to 15%, 28%, 31%, 36%, 39.6% from 10%, 15%, 25%, 28%, 33%, 35% | • All taxpayers | 2013 | • Be aware that current law expires 12/31/2012<br>• Evaluate timing of income changes to be taxed in 2012 versus 2013 | • Many taxpayers will have a higher ta liability in 2013 than in 2012 |
| 12 | **Marriage penalty**<br>• MFJ standard deduction and lower tax brackets are decreased from 200% to 167% of the Single amounts | • Generally all married taxpayers who have a tax liability | 2013 | • Be aware current law expires 12/31/12<br>• Evaluate W-4 withholding and / or quarterly estimates as appropriate | • Many married taxpayers will have a higher tax liability in 2013 than in 201 relative to two single taxpayers with the same income |
| 13 | **Capital gains and dividends (Form 8949 and Schedule D)**<br>• Long-term capital gain rates increase from 0% and 15% to 10% and 20% AND<br>• All dividends are taxed at ordinary rates | • Anyone who sells capital gain property after 12/31/2012 that was held more than one year<br>• Investors who receive long-term capital gains and dividends after 12/31/12 | 2013 | • Be aware current law expires 12/31/12<br>• Consider taking capital gains in 2012 and deferring capital losses to 2013 | • Tax rates for these items are increasing, potentially resulting in higher tax liability |
| 14 | **Mortgage forgiveness debt relief (Form 982)**<br>• Cancellation of debt income on mortgages for principal residences no longer excluded from income | • Taxpayers whose mortgages are canceled or reduced<br>• Foreclosure not required for cancellation of debt income | 2013 | • Avoid foreclosure<br>• If debt forgiveness is inevitable, negotiate with lender for 2012 action | • Inclusion in income will result in highe tax liability |
| 15 | **Earned Income Tax Credit (Schedule EIC)**<br>• For years starting in 2013, largest benefit available is for families with two children AND<br>• Marriage penalty relief is eliminated, making MFJ phaseout same as unmarried filers AND<br>• Calculation of credit reverts to pre-2001 tax law | • Joint filers and / or families with three or more children<br>• Taxpayers with pre-tax savings (e.g. a 401(k), tax-exempt interest, and certain losses | 2013 | • Be aware current law expires 12/31/12<br>• Evaluate W-4 withholding and / or quarterly estimates as appropriate | • In 2013, many qualified taxpayers wil receive less of a credit |
| 16 | **Child tax credit (CTC) (Schedule 8812 for years after 2011)**<br>• For years starting in 2013, credit is reduced from $1,000 to $500 per eligible child AND<br>• Refundability is limited to families with earned income and three or more children | • Families with children under age 17 | 2013 | • Be aware current law expires 12/31/12<br>• Evaluate W-4 withholding and / or quarterly estimates as appropriate | • In 2013, amount of credit is reduced by $500<br>• In 2013, refundability changes may result in:(1) $0 credit for low income families with one or two children AND (2) Limited refundability for families with three or more children |

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## Health Care Reform – Key Tax Laws for Individuals
## As of May 1, 2012

HCR_Individual_QRC_05012012_BW

| # | What is it? | Who is impacted? | When is it effective? | What does the taxpayer need to do? |
|---|---|---|---|---|
| 1 | **Adoption credit**<br>Increases the 2010 adoption credit to $13,170 (previously set at $12,170 for 2010) and makes the credit and any carryover to 2010 fully refundable | Individuals who adopt a child in 2010 and 2011 or who have adopted a child in a prior year and have credit carry forward to 2010 | 2010 | • Claim credit via tax return<br>• Be aware of phase outs that may reduce or eliminate the credit |
| 2 | **Flexible Spending Account (FSA) / Health Savings Account (HSA) / Health Reimbursement Account (HRA) / MSA reimbursable expenses**<br>Changes reimbursable medication expenses to include only prescribed drugs and insulin and excludes over-the-counter medication and medical related items | Individuals using FSA/HSAs for over-the-counter medications | 2011 | • Stop using FSA/HSA for purchase of over-the-counter medications and medical-related items such as bandages |
| 3 | **Flexible Spending Accounts (FSAs) maximum contribution**<br>Decreases annual maximum contribution to FSAs to $2,500 (currently set at $5,000) | Individuals who contribute to an FSA | 2013 | • Limit FSA contributions to $2,500<br>• Use FSA funds for allowed expenses |
| 4 | **Health Savings Account distributions**<br>Increases the penalty for nonqualified distributions from a health savings account to 20% (currently set at 10% for 2010) | Individuals who take nonqualified distributions from an HSA | 2011 | • Be aware of increased penalty for nonqualified HSA distributions |
| 5 | **Medical expense deduction (Schedule A)**<br>Increases threshold for deducting medical expenses to 10% of AGI (currently set at 7.5% of AGI) for individuals under the age of 65 at the end of the year. | Individuals who incur large medical expenses that are not covered by insurance | 2013 | • Be aware of reduced deductibility.<br>• Time certain medical expenses to occur and be paid for prior to 2013 |
| 6 | **Medicare tax on earned income**<br>Increases the employee portion of Medicare tax from 1.45% to 2.35% for earned income in excess of $200,000 ($250,000 for joint filers, $125,000 MFS). Also applies to self-employment income | Higher-income individuals with earned income exceeding $200,000 ($250,000 for joint filers, $125,000 for MFS) | 2013 | • Pay any applicable tax via tax return |
| 7 | **Additional tax on net investment income**<br>Introduces a new 3.8% tax on net investment income (e.g. dividends, interest, capital gain) for higher-income taxpayers | Higher-income individuals with net investment income whose MAGI exceeds $200,000 ($250,000 for joint filers, $125,000 for MFS) | 2013 | • Pay applicable tax via tax return |
| 8 | **Compliance**<br>Requires individuals to obtain health care coverage. If individuals choose not to obtain coverage (and are required to do so), they will pay a penalty, in the form of an additional tax, for each individual required to be covered.<br>• The annual penalty per individual is $95 in 2014, $325 in 2015, and $695 in 2016, and adjusted for inflation after 2016.<br>• The penalty is limited to the national average premium for minimum coverage times a certain % (1.0% in 2014, 2.0% in 2015, 2.5% in 2016) | • All individuals 18 or older, unless specifically exempt (e.g. Not legally present in US, Native Americans, individuals whose insurance costs >8% of household income)<br>• Generally, the penalty will not apply if the individual was without health care for less than 90 days | 2014 | • Obtain or maintain qualifying health care by required date<br>• File a return substantiating coverage each year, beginning on required date OR<br>• Pay applicable penalty via tax return |
| 8a | **Subsidy for health coverage requirement**<br>Facilitates compliance in obtaining health care coverage. Individuals with income at or below 400% of the poverty level who purchase insurance through an exchange may qualify for a subsidy to help cover the cost of the insurance. | Lower-income individuals and families<br>• Single: $44,680<br>• Married with 2 children: $92,200<br>**Note**: These values are as of 4/1/2012 | 2014 | • Qualifying individuals likely will need to apply for the subsidy with the exchange<br>• Adjustment for under or over payment may occur via tax return |

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## Health Care Reform – Key Tax Laws for Business

### As of May 1, 2012

HCR_Business_QRC_05012012_BW

| # | What is it? | Who is impacted? | When is it effective? | What does the business need to do? |
|---|---|---|---|---|
| 1 | **Small business health care premium credit**<br>• A qualified small employer (25 regular full-time equivalent (FTE) employees or less with an average annual employee payroll under $50,000) that pays at least 50% of self-only health insurance premiums on behalf of its employees will qualify for a tax credit. NOTE: Any employee who works more than 120 days is considered a regular employee and included in the calculation. This includes seasonal labor. | • Small employers with 25 or fewer employees and annual average payroll under the threshold amount | 2010 | • Provide health insurance to employees<br>• Ensure continued eligibility for the credit by controlling staffing and pay<br>• Claim credit via tax return |
| 2 | **Excise tax on indoor tanning**<br>• A 10% tax will apply to indoor tanning procedures after 7/1/10 | • Businesses who provide indoor tanning services and their customers | 2010 | • Collect excise tax from customers and remit on a quarterly basis using IRS Form 720 |
| 3 | **Reporting of employer-paid health insurance premiums**<br>• Employers will be required to report the dollar amount of the health insurance premiums paid for each employee on their W-2. The amount will be shown on the W-2 as a <u>nontaxable</u> employer fringe benefit | • All employers, generally, regardless of # of employees or health insurance coverage | 2012 (optional for 2011; transition rules for 2012) | • Report employer-paid health premiums on employees' W-2 |
| 4 | **Requirement to provide health care coverage**<br>• Employers with 50 or more full-time equivalent (FTE) regular employees must provide health care coverage to <u>full-time (FT) regular employees</u> and pay at least 60% of the premium cost. The requirement to provide coverage is determined by looking back to the prior calendar year on a monthly basis.<br>• Generally, to calculate the # of FTEs, sum the output of 1 & 2 below for employees that work more than 120 days per year:<br>(1) FT employees: Count the number of FT employees who work at least 30 hours a week.<br>(2) PT employees: Determine FTE equivalent. For part-time employees (less than 30-hours per week), take the # of non-overtime hours worked by PT employees in a month and divide by 120.<br><br>**Note:** It is still unclear as to whether or not employees who work 120 days non-continuously are considered seasonal employees. We are awaiting IRS guidance on this matter | • Employers with 50 or more employees | 2014 | • Determine if required to provide insurance. If so, provide qualifying health coverage and pay at least 60% of the premiums OR<br>• Pay penalty via tax return (see #5) |
| 5 | **Compliance Penalty / Pay or Play Implications**<br>• <u>Uncovered</u>: If a qualified employer does not provide minimum health insurance coverage and at least one FT employee has been certified as enrolled in a subsidized health plan (considered a certified employee) the employer is subject to a monthly excise tax of $2,000 divided by 12 times (the number of uncovered FT employees minus 30).<br>• <u>Inadequate coverage</u>: If a qualified employer provides health care coverage but pays less than 60% of the premiums for FT employees OR provides unaffordable coverage (at least one employee's share of the premium is more than 9.5% of the employee's household income), the employer is subject to an excise tax up to the lesser of:<br>(1) $3,000 divided by 12 times (the number of employees who obtain subsided insurance through the exchange) OR<br>(2) $2,000 divided by 12 times (the number of FT employees minus 30) | • Employers with 50 <u>or more</u> employees<br>• Employers who fail to provide "qualified" health coverage<br>• Employers who choose not to provide health insurance | 2014 | • Determine if penalty applies<br>• Pay penalty via tax return if applicable |
| 6 | **Excise tax on high cost ("Cadillac") plans**<br>• A 40% nondeductible excise tax will be assessed on coverage exceeding $10,200 for individual annual coverage and $27,500 for family coverage | • Employers who offer "Cadillac" health insurance coverage | 2018 | • Determine if offering a "Cadillac" health plan makes sense for the business<br><br>**Note:** Insurance companies providing health coverage will be responsible for paying excise tax. The tax will most likely be passed on to employers via a fee |